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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE
STATE OF CALIFORNIA**

Order Instituting Rulemaking to Create a
Consistent Regulatory Framework for the
Guidance, Planning and Evaluation of Integrated
Distributed Energy Resources.

R.14-10-003
(Filed October 2, 2014)

**SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) COMMENTS ON
COMPETITIVE SOLICITATION FRAMEWORK WORKING GROUP FINAL
REPORT**

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**Southern California Edison Company's Comments on
Competitive Solicitation Framework Working Group Final Report
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Pursuant to the Rules of Practice and Procedure of the California Public Utilities Commission (Commission or CPUC), and in compliance with the Joint Assigned Commissioner and Administrative Law Judge Ruling and Amended Scoping Memo (Scoping Memo), issued February 26, 2016, Southern California Edison Company (SCE) hereby provides its comments on the Integrated Distributed Energy Resources Competitive Solicitation Framework Working Group (CSFWG) Final Report (Final Report).

I.

INTRODUCTION

SCE appreciates the opportunity to provide feedback on the Final Report developed by the CSFWG. The Scoping Memo and the Administrative Law Judge’s Ruling Establishing a Working Group to Develop the Competitive Solicitation Framework (ALJ Ruling), issued March 24, 2016, tasked the CSFWG with developing a competitive solicitation framework that can be used to target the reliability needs within the areas identified by analysis performed in the Distribution Resources Plan (DRP) proceeding.¹ The Commission also identified seven elements

¹ Scoping Memo at 6; ALJ Ruling at 2-4.

of a competitive solicitation framework, which were the focus of the CSFWG discussions: services, avoiding double-counting, solicitation rules or principles, solicitation oversight, valuation, pro forma contracts, and outreach.²

SCE believes that the CSFWG accomplished the objectives established by the Commission. In particular, the items contained in the Final Report provide a strong basis for a viable competitive solicitation framework that can be used to launch competitive solicitations for distributed energy resources (DERs) that target the reliability needs within areas identified by the DRP proceeding. As evidenced in the Final Report, there is still a significant amount of coordination required between this proceeding and the DRP proceeding, especially around need identification and the process for handing off need determinations to move forward with competitive solicitations. However, the need for further coordination should not be considered a failure of the CSFWG. Rather, it is the next step towards developing an effective and robust process for procuring DERs as possible alternatives to conventional distribution infrastructure. Additionally, many of the issues identified in the Final Report will benefit from running a competitive solicitation process, putting the competitive solicitation framework into action, gaining market experience, identifying lessons learned, and allowing the framework to continue to evolve. Given an identified need and an appropriate timeline to design a solicitation, SCE is confident in its ability to launch and execute a successful competitive solicitation.

In Section II below, SCE comments on each portion of the Final Report. SCE's comments follow the organization of the Final Report and include discussion of services, double-counting, rules and oversight, valuation, pro forma contracts, outreach, distribution loading order, and non-investor-owned utility (IOU) load-serving entities (LSEs).

² Scoping Memo at 6-7; ALJ Ruling at 3.

II.

COMMENTS ON FINAL REPORT

A. Services

SCE agrees with the consensus position of the CSFWG that energy, capacity, voltage, and incremental data beyond what is required are all potential services that may be procured for distribution grid needs.³

The concept of contingency plans was also brought up in the CSFWG discussions around services.⁴ Fundamental to leveraging DERs for distribution deferral purposes is the goal of satisfying distribution planning objectives, namely ensuring system reliability. Once DERs are procured, there will be milestones built into the contract that allow the IOU to determine whether or not the project is likely to materialize. The details of the need, and even the specific DER technolog(ies) deployed, will dictate what types of contingencies must be in place to maintain system reliability. As IOUs and other market participants gain experience with using DERs for distribution deferral purposes, the potential contingencies required will likely change.

The Final Report and CSFWG discussions identified some of the key considerations for developing contingency plans. However, it is premature to establish requirements for what a contingency plan should include or exclude at this time. The determination of DERs' ability to defer a traditional distribution project may be the more appropriate place to discuss contingency plans. As the DRP demonstration projects and other deferral opportunities progress, the topic of contingency plans should be considered.

B. Double-Counting

The CSFWG identified two overarching concerns associated with the procurement of DERs to meet local reliability needs: (1) the determination of whether or not the procured

³ Final Report at 8.

⁴ *Id.* at 17.

resources are incremental to existing programmatic efforts (*e.g.*, demand-side management (DSM) programs, net energy metering, self-generation incentive program, etc.), and (2) how to avoid the double-counting of resources.⁵ Although SCE agrees that there is merit in some of the principles and potential frameworks outlined in the Final Report, SCE recommends an alternative approach to addressing incrementality and double-counting. With the current level of uncertainty in how DER forecasts will be allocated to the granular area associated with a need, SCE proposes that rather than trying to decipher what DERs are incremental once bids are received, the focus should be on clearly defining what DERs are incremental for each competitive solicitation based upon the specific DER forecasts associated with the need determination used for the solicitation. This approach should allow for the market to develop while still maintaining a reliable electric system.

As part of determining the need, the forecast used during the distribution planning process should include a detailed assessment of the DERs included in the load forecast. This same forecast should be used to design the solicitation, informing the viable DER choices. As discussed in the CSFWG meetings and the Final Report, the level of detail in distribution planning is a topic within the scope of the DRP proceeding that is continuing to evolve. In the absence of a robust method to allocate programmatic DERs, the assumptions used in planning will be estimates. With this in mind, SCE recommends that the planning assumptions for DERs, including forecasted DER uptake in the relevant areas, DER load shapes, market sectors, and measure types, should be included in the solicitation documentation (*e.g.*, in Request for Offers (RFO) instructions or other solicitation materials).

Including this information in the solicitation documents will provide potential bidders with clarity on what resources are incremental as they develop their bids, guiding them to bid incremental resources. To ensure reliability is maintained, SCE also suggests that the level of certainty in these assumptions should factor into the planning reserve margin used when

⁵ *Id.* at 18.

designing a competitive solicitation. In other words, in cases where there is less certainty around the assumptions, potentially increasing the risk of cannibalization of DERs included in the forecast by DERs procured in the solicitation, there may need to be a larger reserve margin to ensure that the DERs procured ultimately meet reliability needs.

The Commission should adopt SCE's recommended approach to addressing incrementality and double-counting. SCE's proposal will provide transparency to market participants to develop bids and also help to ensure that the appropriate amount of DERs are procured to avoid concerns over reduced system reliability. Moreover, the DRP proceeding should continue to develop more detailed, granular planning processes, allowing the framework to address incrementality and double-counting and planning reserve margins to develop in conjunction with the planning processes.

C. Rules and Oversight

SCE supports the twelve consensus principles for the competitive solicitation framework identified in the CSFWG Status Report and the Final Report.⁶ Consistent with these principles, SCE offers the following comments on some of the topics where the CSFWG was unable to reach consensus.

1. The Commission Should Clearly Define and Delineate Rules and Oversight Regarding Distribution Planning Activities and Rules and Oversight Regarding DER Sourcing Activities

SCE recommends that the Commission draw a clear distinction between rules and oversight regarding the *distribution planning activities* resulting in a need to source DERs as potential alternatives to conventional distribution infrastructure and rules and oversight regarding the *DER sourcing activities* used to meet that need. The scope of this proceeding's current efforts to develop a competitive solicitation framework includes rules and oversight regarding

⁶ CSFWG Status Report at 6; Final Report at 33.

the DER sourcing activities targeting the reliability needs within the areas identified in the DRP proceeding. Specifically, two element of the competitive solicitation framework are “[d]evelopment of *solicitation* rules or principles” and “[d]evelopment of *solicitation* oversight needs.”⁷ In contrast, rules and oversight regarding distribution planning activities resulting in a need to source DERs as potential alternatives to conventional distribution infrastructure are more appropriately considered in the DRP proceeding. The Commission should clearly define these distinct areas of rules and oversight and ensure that there is a well-defined separation between them.

Such clear delineation between rules and oversight regarding distribution planning activities and DER sourcing activities is critical to avoid the inefficiencies and uncertainties that may result from duplicative review processes where rules and oversight responsibilities are ambiguous. Clearly defining and separating rules and oversight for these two areas is also consistent with the CSFWG’s consensus principle of creating “a streamlined process.”⁸ To achieve these objectives, SCE suggests that the Commission define a clean hand-off in which required DER attributes (determined in the distribution planning activities consistent with the rules and oversight for distribution planning activities) are passed over to the DER sourcing activities (which would then be subject to the rules and oversight for DER sourcing activities).

The discussion of non-consensus items in the “Rules and Oversight” section of the Final Report includes recommendations regarding rules and oversight of DER sourcing activities, as well as some discussion of oversight of distribution planning activities. Although SCE provides comments on some of the distributed planning-related issues below, a decision on the scope and details of the rules and oversight for distribution planning activities resulting in a need to source DERs as potential alternatives to conventional distribution infrastructure should ultimately be made in the DRP proceeding.

⁷ Scoping Memo at 7 (emphasis added).

⁸ Final Report at 33.

Rules and oversight regarding the DER sourcing activities can be easily adapted from the Commission's long-standing practices involving sourcing of energy, capacity, and ancillary service products by the IOUs from wholesale markets, including from resources such as distributed generation, demand response, and energy storage. The competitive solicitations to source DERs as non-wires alternatives for distribution functions should be reviewed by the IOUs' existing Procurement Review Groups (PRGs), even if a new group, referred to in the Final Report as the Distribution Planning Advisory Group (DPAG), is established to review distribution planning activities related to deferral of conventional distribution infrastructure and need determinations for DER solutions.

For example, the PRG should consult on: (1) creation of RFO documents, RFO launch, and bid process; (2) bid review and screening; and (3) final bids, valuation, portfolio review, and contract selection. Although some CSFWG members suggested DER competitive solicitations be reviewed by a new distribution-specific PRG or the new DPAG, SCE believes the IOUs' existing PRGs are best suited to review competitive solicitations targeting DERs for distribution deferral purposes. The PRGs have a long history and significant expertise regarding the IOUs' competitive solicitation activities and the PRG review process has worked effectively for many solicitations, including solicitations for DERs. The fact that a solicitation is targeting DERs for distribution deferral purposes does not change the fundamental responsibilities of the PRGs or necessitate creating a whole new review process.

To provide additional technical expertise to the IOUs' PRGs, SCE supports creating a new role of an Independent Professional Engineer (IPE). The IPE's primary role should be to participate in the DPAG process in order to provide an unbiased professional opinion regarding the soundness of the IOU's distribution planning results identifying deferral opportunities. This role is primarily within the scope of the distribution planning activities. However, the IPE could also participate in the PRG process when it reviews DER solicitations, especially to provide a technical perspective regarding the ability of selected DERs to perform the distribution functions that the IOU needs. Given that detailed information is likely to be shared with the IPE, and

DPAG members, SCE expects the IPE and DPAG members would be required to sign a non-disclosure agreement to participate, similar to current practices with the IE and PRG members.

While the DPAG is discussed in the Final Report, SCE views the DPAG as part of the rules and oversight for distribution planning activities, not DER sourcing activities. The DPAG should be reviewing the application of the IOUs' deferral framework. The scope of the deferral framework and the role of the DPAG should be fully developed in the DRP proceeding. Based on SCE's current understanding of the framework, tasks of the DPAG would likely include: (1) review of identified opportunities from application of deferral framework; and (2) review of IOU sourcing plans for distribution functions.

As addressed in the Final Report, some CSFWG members raised the issue of the ability of market participants to participate in the DPAG. SCE recommends that market participants not be allowed to participate in the DPAG process. One key objective of the DPAG process is to create an appropriate level of transparency without compromising the interests of customers. Said differently, a foundational assumption of the DPAG concept is that there is certain types of information which, if shared with some or all market participants, might harm the interests of customers. For example, IOUs will likely share with the DPAG location-specific confidential forecasts, proprietary projections and modeling output, precise criteria in determining which conventional projects can be deferred and for how long, precise screening and evaluation of DER technologies as alternatives to traditional investments, comparative cost of solutions including the cost of conventional infrastructure, and an assessment of DER's efficacy and effectiveness in providing distribution functions. Furthermore, the process would involve DPAG participants providing input regarding where, when, and how to pursue DER solutions.

Market participants will have a vested interest in influencing the outcome of the DPAG process. If market participants are allowed to participate in the DPAG, the IOUs will either have to reveal confidential, market sensitive information to these market participants, compromising the interests of their customers, or significantly limit the topics and information that can be discussed with the DPAG, undermining the benefits of the DPAG process. In addition, only

certain large market participants will have appropriate resources to participate in processes such as the DPAG; therefore, these large market participants will have an inherent advantage against smaller DER players if they are allowed to participate in the DPAG. The benefit of market participants' input in the overall distribution deferral and DER sourcing processes can be obtained via the competitive solicitation process itself, *e.g.*, via forums such as bidder's conferences and in the form of actual proposals. Accordingly, the Commission should not allow market participants to participate directly in the DPAG.

2. The Commission Should Adopt a Streamlined DER Procurement Approval Process

SCE recommends that the Commission adopt a streamlined process to approve DER procurement that provides certainty to the IOUs of cost recovery for DER transactions, especially for near-term distribution deferral opportunities. DER sourcing for distribution deferral purposes is still a new and evolving concept. Although the Commission and the IOUs will learn from the various demonstration projects underway in the DRP proceeding, it is likely that DER sourcing will be narrowly focused on specific locations and in small quantities, given the granular nature and relative scale of distribution deferral projects. The procurement authorization and contract approval processes that the Commission has adopted for various procurement efforts (*e.g.*, local capacity requirements, Renewables Portfolio Standard, and energy storage solicitations) might not work for such small and targeted DER procurement for distribution deferral, particularly in the case of DER procurement for near-term distribution deferral opportunities. Thus, a streamlined DER procurement approval process is needed.

In CSFWG discussions and at the August 4, 2016 workshop in this proceeding, SCE proposed that the Commission create a DER Procurement Framework (DPF).² The DPF concept is modeled on the well-established Assembly Bill (AB) 57 Bundled Procurement Plan process.

² Final Report at 37; SCE's August 4, 2016 workshop presentation is attached to these comments as Appendix A.

The IOUs would seek a pre-approved DPF authorization to procure DERs for near-term distribution deferral opportunities, *e.g.*, attributes needed in five years or less. Each IOU's DPF would be submitted ever two years for Commission approval. Once approved by the Commission, the DPF would establish the procurement rules, *i.e.*, the "up-front standards" for DER procurement by the respective IOU.

The IOU's DPF would describe how the IOU plans to identify distribution deferral opportunities, and would also potentially adopt a "deferral framework" concept based on various technical and feasibility screens. Additionally, the DPF would describe how a deferral opportunity would be translated to corresponding DER attributes, representing procurement need. Subsequently, the IOU would notify the Commission of the deferral opportunity, needed attributes, and the IOU's intent to launch an RFO via a Tier 1 advice letter. The need identified by the advice letter would represent the "DER volume limit" that the Commission would allow the IOU to procure in that particular RFO. The DPF would also establish the rules and the process for the IOU to conduct RFOs to solicit bids for needed DER attributes for distribution deferral. After an RFO is completed, the DER transactions would be filed for the Commission's review of compliance with the DPF via semi-annual advice letters.

Up-front procurement standards in the DPF could be structured similar to the AB 57 Bundled Procurement Plan. For instance, the Commission could require IOUs to specify a list of DER attributes that might be needed, a list of DER technologies including how they map to needed attributes, potentially a concept of DER technology adjustment factors to normalize different DER technologies in their respective efficacy to deliver needed attributes, and a list of DER products authorized to be purchased for needed attributes based on the services discussed in the Final Report. Products not on the pre-approved list (*e.g.*, a new combination offer of different DER technologies) could be procured but would need to go through a separate approval process.

The DPF would specify that offer selection would be based on a least-cost, best-fit (LCBF) approach. However, the DPF would require that the IOU present the precise approach

to be used for valuation and selection in a particular RFO to the PRG, Independent Evaluator (IE), and IPE prior to the receipt of final offers. The IOU would also provide its PRG, IE, and IPE a decision rationale for its proposed contract selection and seek feedback before contracts are executed. Similar to wholesale energy markets transactions, the IOU's risk management approaches, such as creditworthiness of approved vendors, credit limits, collateral requirements, security deposits, and counterparty concentration limits, would be captured in the DPF.

Finally, the DPF would specify the cost recovery and cost allocation mechanisms for DER procurement. DER costs related to distribution deferral should be recovered through the IOU's base rate adjustment mechanisms, such as SCE's Base Revenue Requirement Balancing Account and/or Energy Resource Recovery Account. If a transaction is found to be out of compliance with the DPF, then the IOU would have an obligation to justify the transaction's reasonableness. DER costs should be allocated to customers based on the underlying trigger for the need. For example, the cost of DER services to defer distribution upgrades would be allocated to all distribution customers; however, the value of services consumed by bundled customers would be credited towards total cost, and recovered separately from bundled customers.

In order to create a streamlined process for the Commission's approval of need and DER transactions that will allow the IOUs to effectively procure DERs for near-term distribution deferral opportunities, the Commission should adopt a procurement framework like SCE's proposed DPF. In its decision on the competitive solicitation framework, the Commission should find that a streamlined process like the DPF concept is reasonable and order Commission Staff and the parties to work on the details of the framework in the next phase of this proceeding.

D. Valuation

SCE agrees with the CSFWG's recommendation that the valuation components included in the Final Report be used as a starting point in the evaluation process for future competitive

solicitations targeting a distribution deferral need.¹⁰ As noted in the Final Report, the IOUs use LCBF principles in the evaluation processes of their existing solicitations. LCBF methodologies take into account the quantitative and qualitative factors associated with bids to obtain the best value and most effective solution for customers. As discussed during the CSFWG meetings, some of the attributes listed in the Final Report are currently categorized as qualitative because of a lack of defined quantification methods. To the extent that these methods develop, it is appropriate to move these factors into the quantitative category.

Some members of the CSFWG expressed concerns with the transparency of the solicitation evaluation process. In discussing the transparency of the evaluation process, it is important to distinguish between the evaluation methodology and confidential price forecasts, confidential cost estimates for traditional infrastructure investments, or other confidential valuation components used in the evaluation process. SCE agrees that the evaluation methodology should be transparent. Indeed, SCE already makes descriptions of its evaluation methodology, including descriptions of evaluation criteria, available to bidders. For example, in SCE's Preferred Resources Pilot RFO 2, a description of the evaluation process, including which quantitative components would be included, was provided as part of the bidder's conference held early in the process.¹¹

However, confidential price forecasts and other confidential cost information should not be provided to the market. Disclosing confidential price forecasts to market participants would significantly diminish one of the primary benefits of a competitive solicitation – competition that drives down costs to customers. Indeed, publicly releasing the IOUs' proprietary price forecasts would impede the competitiveness of the market by increasing the potential for gaming and

¹⁰ Final Report at 39-45, Appendix 3.

¹¹ SCE's 2nd Preferred Resources Pilot Request for Offers Bidder's Conference Presentation at 39-47 ([https://sceprprfo.accionpower.com/_scedgpr_1501/docs/DGPR/2015/documents/b.%20Bidders%20Conferences/20151016%20PRP%20RFO%202%20Bidders%20Conference%20Presentation%20\[FINAL\].pdf](https://sceprprfo.accionpower.com/_scedgpr_1501/docs/DGPR/2015/documents/b.%20Bidders%20Conferences/20151016%20PRP%20RFO%202%20Bidders%20Conference%20Presentation%20[FINAL].pdf))

market manipulation and harm customers by promoting bidding behavior that could result in higher contract prices. Moreover, such harm to customers would not be confined to the DER solicitations since the same forecasts are often used in other solicitations. If the IOUs' proprietary price forecasts were publicly released, market participants could use this market sensitive information to test scenarios and determine how to present future bids so that they are evaluated with the most favorable result in any solicitation.

Similarly, providing cost estimates for traditional infrastructure investments to market participants could drive up costs for customers because bidders could use this information as a target price for their bid, *i.e.*, bidders could bid prices just below the cost of traditional investments rather than looking at the real cost they need to construct the project and make a reasonable return on investment. Doing so would inappropriately shift some of the benefits of the deferral from customers to bidders.

Furthermore, the Commission has already completed a detailed and comprehensive review of the confidentiality rules for procurement data. In Decision (“D.”) 06-06-066, the Commission concluded that a broad range of procurement data is market sensitive and entitled to confidential treatment. In particular, while the Commission decided that “[e]valuation guidelines are public,” it concluded that “[s]pecific quantitative analysis involving in scoring and evaluation of participating bids” is confidential for three years after winning bids are selected.¹² In D.06-06-066, the Commission sought to “balance the policy goals of public disclosure, full participation and transparency with the statutory provisions allowing and indeed requiring confidential treatment of data in limited instances.”¹³ The Commission concluded that this balance was achieved by publicly disclosing evaluation guidelines while keeping specific quantitative analysis involved in scoring and evaluating bids such as price forecasts confidential. There is no basis for changing that decision here.

¹² D.06-06-066, Appendix 1 IOU Matrix, Section VIII.B.

¹³ *Id.* at 2.

Publicly disclosing confidential price forecasts and other cost information to market participants is not necessary to help bidders understand the solicitation process or ensure that bids are evaluated fairly. As discussed above, SCE is willing to provide a description of its evaluation methodology and criteria to the market as it has in other solicitations. Moreover, the PRG and an IE will continue to provide oversight over the IOUs' solicitation processes as they do today, including review of the IOUs' bid and contract selection and the evaluation process. This oversight helps to ensure that the IOUs follow their LCBF evaluation methodologies appropriately. This level of public disclosure and oversight has worked effectively in many past competitive solicitations, including solicitations for DERs. The same approach should be used for the competitive solicitation framework adopted in this proceeding.

E. Pro Forma Contracts

SCE supports the CSFWG's consensus approach to the IOUs modifying their existing pro forma contracts, or term sheets, for distribution deferral purposes. Specifically, SCE agrees that the following types of changes would be needed: (1) inclusion of a performance based payment structure during the distribution deferral period for solar resources; (2) an increase in the number of preoperational milestones, as well as consequences for not meeting these milestones; (3) an increase in development security; (4) an increase in performance assurance; and (5) modifications to accommodate the voltage support product.¹⁴

Additionally, SCE supports the non-consensus majority position that a transparent, collaborative negotiation with buyers and sellers at the table will result in a more workable contract as opposed to developing a "take it or leave it" contract for new product pro forma contracts.¹⁵ SCE provides pro forma contracts to the market as a starting point for negotiations. This approach has historically worked for both the IOU and the market and SCE expects this success to continue.

¹⁴ Final Report at 46-47.

¹⁵ *Id.* at 49.

A non-consensus minority expressed the desire that a technology agnostic pro forma contract be developed. SCE is supportive, in concept, of a technology agnostic pro forma contract. However, SCE is concerned with the difficulty of designing a technology agnostic pro forma contract while maintaining compliance with various DSM policies that currently exist, particularly those around measurement and valuation (M&V) for energy efficiency (EE). Different DERs have differing levels of existing M&V policies, which has influenced what M&V approaches have been used in past pro forma contracts. A technology agnostic, whole-building meter-based M&V plan is technically feasible, but would need to be carefully constructed.

For the purpose of procuring DERs for distribution deferral purposes in a technology neutral manner, SCE recommends that the M&V plan should be allowed to be based on actual load reduction or generation. This would deviate from past M&V approaches used in DSM programs and competitive solicitations, which have been based more on pre-calculated savings values. SCE's proposal would also align the M&V approach with the efforts to support AB 802 in the EE portfolio. Additionally, for a technology neutral pro forma contract to be viable, enough visibility into the pre-operational and operational periods would need to be included to provide comfort that the projects are on-track to deliver. This may require a greater level of detail to be provided in the bid information submitted to the IOUs so that appropriate milestones can be created. SCE believes that its existing pro forma contracts provide flexibility to bidders without creating a technology agnostic pro forma contract, but SCE looks forward to continuing to work with the market and the Commission to develop additional combinations and/or a technology agnostic approach.

F. Outreach

SCE agrees with the Final Report's consensus item on market outreach.¹⁶ SCE has received robust market participation in past DER competitive solicitations and agrees with the Final Report that past practices for market outreach should be used for solicitations targeting distribution needs.

Given the granular nature of distribution deferral needs, where there will be a limited pool of customers, customer outreach will be a key component to ensuring the success of the contracts. SCE agrees with the consensus in the Final Report regarding providing awareness to both customers and market participants about the solicitation and what opportunities it may provide. Similar to what is reflected in the Final Report, SCE believes that there may be some benefits and cost saving opportunities that could arise from an enhanced level of customer acquisition support for winning bidders. This is an option that should be made available, but the specific form(s) of support will need to be developed with careful consideration of regulatory and legal compliance. As future solicitations are developed, SCE is willing to explore different options for customer acquisition support to understand what types of cost reduction and performance benefits materialize.

G. Distribution Loading Order

SCE agrees with the Final Report's recommendation that the Loading Order, as defined by the Energy Action Plan, should not apply to competitive solicitations for distribution deferral purposes.¹⁷

H. Non-IOU LSEs

SCE agrees with Recommendation 1 in the "Non-IOU LSEs" section of the Final Report, stating that community choice aggregators (CCAs) should be allowed to participate in future

¹⁶ *Id.* at 52.

¹⁷ *Id.* at 55.

competitive solicitations.¹⁸ If they choose to participate and meet all eligibility criteria, CCAs should not be excluded from acting as bidders in a competitive solicitation.

SCE does not believe that Recommendation 2, to establish new partnerships between IOUs and non-IOU LSEs, is a necessary part of establishing a competitive solicitation framework. This issue is out-of-scope; therefore, SCE has no comment.

Respectfully submitted,

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¹⁸ *Id.* at 56.

Appendix A

Distributed Energy Resources Procurement Framework (DPF)

Proposed Concept – August 4, 2016

Distributed Energy Resources Procurement Framework (DPF)

Proposed Concept
August 4, 2016

Objective & Concept Introduction

- Objective of a Distributed Energy Resources Procurement Framework (DPF):
 - Streamline the Commission's process to approve DER procurement for near-term distribution deferral opportunities
 - Provide certainty to the IOUs of cost recovery for DER transactions in compliance with Commission-approved framework
- DPF Concept :
 - Similar concept to the AB 57 Bundled Procurement Plan
 - IOUs to seek a pre-approved Distributed Energy Resources Procurement Framework (DPF) authorization to procure DERs for near-term distribution deferral opportunities (e.g., attributes needed in <5 years)
 - DPF establishes the procurement rules, aka, "up-front standards"

High-Level Summary

- DPF submitted every 2 years for Commission approval
- Once the DPF is approved, actual procurement need would be identified via Tier 1 advice letters submitted pursuant to the DPF
- DPF will allow IOUs to conduct RFOs to solicit bids for needed attributes
 - Procurement Review Group (PRG) and Independent Evaluator (IE) would provide oversight
 - An Independent Professional Engineer (IPE), from the to-be-formed Distribution Planning Advisory Group (DPAG), would also participate in the DER RFOs
- Transactions would be filed for Commission's review of compliance with the DPF via semi-annual advice letters
- Public participation
 - IOUs to host a public workshop when they submit their DPFs for Commission approval
 - IOUs to also look into potential options of notifying end-use customers in the affected area of competitive solicitations

DPF Describes How Deferral Opportunities Are Identified

- DPF would describe how IOUs plan to identify distribution deferral opportunities
 - Potentially create a “deferral framework” concept, based on certain screens
- Deferral opportunities are translated to corresponding DER attributes, representing procurement “need”
 - DPF applies to DER attributes needed in 5 years or less
- CPUC is notified of deferral opportunity, needed attributes, and IOU’s intent to launch an RFO via a Tier 1 Advice Letter

DPF Includes Up-front Procurement Standards

- List of DER attributes that might be needed
- List of DER technologies, including mapping to attributes
 - Including a concept of DER technology adjustment factors, to normalize different DER technologies in their respective efficacy to deliver needed attributes
- List of DER products authorized to be purchased for needed attributes
 - e.g., aggregated EE, traditional DR, DR backed by energy storage, renewable DG capacity/energy, and energy storage
 - Products not on the pre-approved list (e.g., complex solar/ES hybrids or EVs) could be procured but would need to go through approval via advice letter
- Potential need to establish a list of pre-qualified bidders in the event that open solicitations become too administratively difficult to manage as a result of a large number of bidders
 - Prequalification based on criteria such as credit and collateral requirements; vendors stay on the list based on performance

- Authorized transaction methods include Request for Offers (RFO), Electronic Solicitations, and Bilateral Transactions
 - RFOs would be the preferred approach
 - However, IOUs can also design Electronic Solicitations for attributes that can be met through standardized, non-negotiable contracts
 - Bilaterally negotiated transactions would be allowed with a “strong showing” of price competitiveness
- Need identified via Tier 1 Advice Letters represents the “DER volume limit” that the Commission would allow the IOU to procure in that RFO
 - DER technology adjustment factors apply to the volume limit
- RFOs are open to all listed DER technologies
- RFOs pursuant to the DPF would be reviewed with the existing Procurement Review Groups (PRG)
 - Continued role of an Independent Evaluator (IE)
 - Added role of an Independent Professional Engineer (IPE) from Distribution Planning Advisory Group (DPAG)

Valuation, Selection & Risk Management

- Least cost + best fit principles apply
- IOU to present the precise approach to be used for valuation and selection in a particular RFO to the PRG, IE, and IPE prior to the receipt of final offers
- IOU to provide its PRG a decision rationale for its proposed selection and seek feedback before contracts are executed
- Transactions to be submitted to the Commission for procurement plan compliance review once executed
- IOU's risk management approaches, similar to wholesale energy markets transactions, would be captured in the DPF, such as:
 - Creditworthiness of approved vendors
 - Credit limits
 - Collateral requirements
 - Development security deposits
 - Counterparty concentration limits

Cost Recovery Process

- IOU submits DER transactions for Commission's review of DPF compliance via advice letter filings (every six months)
- DER costs would be recovered through the IOU's base rate adjustment mechanisms, such as SCE's Base Revenue Requirement Balancing Account (BRRBA) and/or Energy Resource Recovery Account (ERRA)
 - If transaction is found out of compliance with DPF, then the IOU has an obligation to justify the transaction's reasonableness
- DER costs will be allocated to customers based on the underlying trigger for the need
 - Cost of DER services to defer distribution upgrades would be allocated to all distribution customers
 - Value of services consumed by bundled customers would be credited towards total cost, and recovered separately from bundled customers

This Concept Requires Further Discussion

- SCE recommends that the Commission should add this concept to the scope of the IDER proceeding and invite stakeholders to submit comments
- The DPF can be adopted by the Commission to allow IOUs to source DERs needed for near-term distribution deferral opportunities, and/or when the dollar amount of the likely procurement is not large enough to justify extensive front-end and back-end Commission approval processes
- This framework should be modeled on the well-established AB 57 Bundled Procurement Plan concept